Prince Edward Island
CANADA

Civil Service Superannuation Fund

Annual Report
2002/2003

104-05508/

The Honourable J. Léonce Bernard
Lieutenant Governor of Prince Edward Island
PO Box 846
Charlottetown, PE C1A 7L9

May it Please Your Honour:

In accordance with Section 6 of the *Civil Service Superannuation Act*, I am pleased to present to you the Annual Report of the Province of Prince Edward Island Civil Service Superannuation Fund for the fiscal year ended March 31, 2003.

Respectfully submitted,

Mitch Murphy,
Provincial Treasurer

Table of Contents

Introduction 1

Plan Description 1

Fund Administration 3

Highlights for 2002/2003 7

Administrative Advisory Committee 11

Master Trust Investment Advisory Committee 12

Appendixes 15

- Auditor's Report
- Audited Financial Statements for 2002/2003

Introduction

The Civil Service Superannuation Fund (CSSF) was established in 1945 to provide retirement allowances to civil service retirees, and to the dependents of deceased retirees, in accordance with the *Civil Service Superannuation Act* (CSSA).

Plan Description

The Civil Service Superannuation Fund is a contributory defined benefit pension plan financed by contributions from participating employers and employees, and by investment earnings from the Master Trust Investment Fund. The Civil Service Superannuation Fund and the Canada Pension Plan are integrated when a retiree is 65. In 2002/2003 members of the plan contributed 8.75 per cent of their first $3,500 (CPP's basic exemption threshold) of pensionable income, 6.95 per cent on earnings from $3,501 to $39,100 (CPP's Yearly Maximum Pensionable Earnings for 2002), and 8.75 per cent of their salary in excess of the YMPE.

Normal Retirement Pension – a monthly pension is payable for life to a member who has attained the age of 60 with five or more years of pensionable service. The benefit is calculated as 2 per cent for each year of pensionable service times the average of the three highest years of pensionable earnings, to a maximum of 35 years. Please note that for salary below the

CPP's Yearly Maximum Pensionable Earnings the 2 per cent benefit is comprised of:

a) a 1.3 per cent life-time benefit, and

b) a bridge benefit of 0.7 per cent from the date of retirement to age 65.

Early Retirement – eligible members can opt for an early retirement pension benefit at age 55. In these cases, the pension amount is reduced by the lessor of:

a) 3 per cent for each year prior to age 60, or

b) 3 per cent for each year prior to attaining 30 pensionable years.

For those members with a minimum age of 55 and at least 30 years of pensionable service, the above penalty is waived.

Inflation Protection – pensions are increased to the Consumer Price Index to a maximum of 6 per cent on the first day of April of each year.

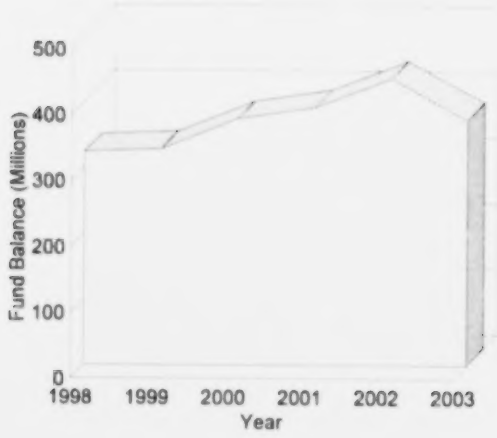
Benefits on Termination

- for vested members: a deferred pension or a refund of employee contributions plus interest;
- for non-vested members: a refund of employee contributions plus interest.

Fund Administration

Administration of the CSSA is assigned to the Employee Benefits Section, of the Corporate Services, Systems and Administration Division, of the PEI Public Service Commission. The CSSF's assets are managed independently by professional fund managers. The balance of the CSSF in 2003 was approximately $374 million, down from $436 million in 2002. Diagram 1 shows the CSSF balance from 1998 to 2003.

Diagram 1
CSSF Balance



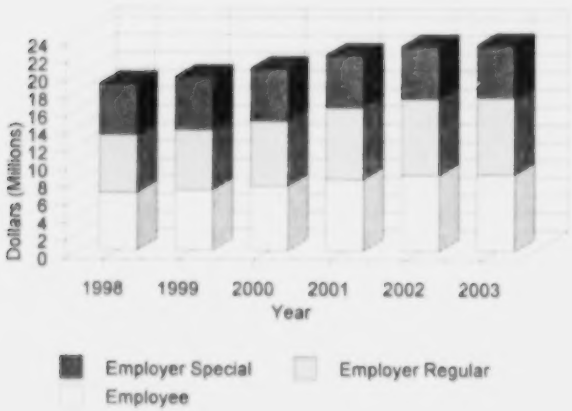
Employers – There are 19 different employers participating in the CSSF, with a total of approximately 3,100 full- and part-time employees. The Province of PEI is the largest employer with 2,050 contributors, the five health authorities have a combined total of 550 contributors, two insurance companies contribute for 150 employees on long-term disability claims, and the remaining 250 contributors are employed with 11 other agencies.

Regular Contributions – Regular contributions are made to the CSSF via payroll deductions. Other contributions include: special payments from the Province; payments for prior service; and transfers in from other plans via reciprocal agreements. In 2003 the regular contributions from both the employer and employee combined were approximately the same as 2002 at $17.3 million.

Special Contributions – In 1995, Government committed to a series of annual payments to help address the underfunded status of the plan. There are two special payments of $5.93 million remaining to be paid into the fund on April 1, 2003, and April 1, 2004.

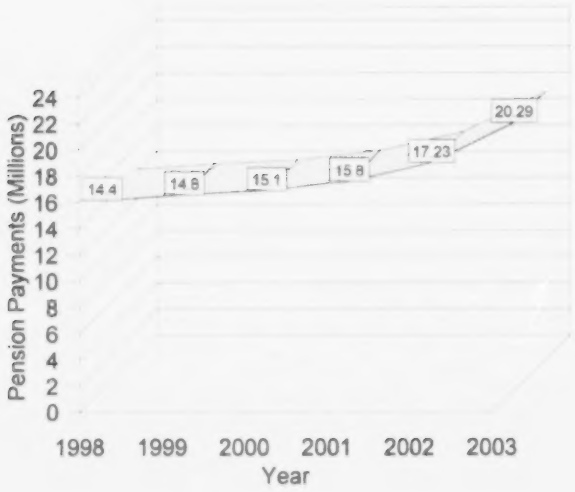
Diagram 2 depicts, by year, the regular employer and employee contributions made to the CSSF as well as the special payments made by the Province.

Diagram 2
Contributions: Regular and Special



Pension Payments - Annual pension payments increased from $14,417,190 in 1997 to $20,298,234 in 2003. This is shown in Diagram 3. The respective average number of persons receiving pension increased from 1,230 in 1998 to 1,493 in 2003.

Diagram 3
Pension Payments



Actuarial Requirement – Federal legislation requires that an actuarial valuation be performed once every three years to evaluate the funding status of the CSSF. Actuarial valuation reports require best estimate assumptions about future events to determine the liabilities of the fund as of the valuation date. The actual assets of the fund as of the valuation date are then subtracted from the liabilities to determine the unfunded liability. The most recent actuarial valuation was completed as of April 1, 2002, and the results indicate there is an unfunded liability of $52.5 million.

Highlights for 2002/2003

Act/Regulations

In the fiscal year 2002/2003 there were no amendments to the *Civil Service Superannuation Act* and Regulations (CSSA).

Initiatives and Challenges

1) ARIEL, the new pension administration system, was put into live production as of February 2002. Pension administration staff uses Ariel for calculation of retirement benefits for certain groups. Work continued on cleaning the historical data for the remaining groups.

2) Education Presentations – historically, the staff of Employee Benefits have provided periodic information sessions on plan benefits to individuals who are within a year of retirement. In recent years, the demand for these sessions has grown as plan members begin planning for their retirement earlier in their careers.

3) A Voluntary Retirement Program offered to employees of the PEI Civil Service, PEI Liquor Control Commission, Museum & Heritage Foundation, Auditor General's Office and the Public Service Commission. The Voluntary Retirement Program increased the number of retirements from these entities and boosted the number of overall pensioners in the CSSF to 170.

Investment Management

The largest contributor to the growth of Civil Service Superannuation Fund assets is normally investment income. These investments are held in the Province of Prince Edward Island Master Trust. The Civil Service Superannuation Fund (CSSF), MLA Pension Funds and the Teachers' Superannuation Fund participate in the Master Trust. In 2003 approximately 59.5 per cent of the funds in the Master Trust were assets of the CSSF.

The average rate of return of the Master Trust in 2003 was a decrease of -6.2 per cent, which is indicative of the market value decrease of the Civil Service Superannuation Fund. The total return on the Master Trust Fund since 1997 was 4.3 per cent, slightly above the Master Trust's benchmark return of 3.7 per cent.

The Fiscal Management Division of the Department of the Provincial Treasury provide investment management support for the Province of Prince Edward Island Master Trust.

The fund managers responsible for the CSSF's investments as at March 31, 2003, were:

1) Sceptre Investment Counsel Limited – representing Putnam Investments;
2) Beutel Goodman & Company Ltd;
3) McLean Budden Limited;
4) Northwater Capital Management Inc; and
5) Templeton Management Limited.

Fund Assets

During 2002/2003 there was a net decrease to fund assets of $62,509,259. Table 1 shows the receipts and incomes, by source, which totalled a decrease of $39,060,069. Table 2 shows the expenditures for 2002/2003, which totalled $23,449,190.

Table 1
Receipts and Income

Type	Amount
Employer Contributions	$ 8,679,152
Employee Contributions	$ 8,679,152
Special Payment	$ 5,926,605
Investment Income	$ 14,212,263
Transfer from Other Plans	$ 4,080,506
Other	$ 661,532
Total Receipts	$ 42,239,210
Market Value Decrease	$ (81,299,279)
Total	**$ (39,060,069)**

Table 2
Expenditures

Type	Amount	Percentage of Expenditures
Benefits Paid	$ 20,298,234	
Transfers	$ 973,625	
Refunds	$ 385,039	
Total Benefit Expenditures	$ 21,656,898	92.4%
Benefit Administration	$ 202,206	
System Fees	$ 40,541	
Consulting Fees	$ 51,970	
Total Benefit Administration Expenditures	$ 294,717	1.2%
Investment Manager Fees	$ 1,387,798	
Monitoring Fees	$ 57,014	
Custodial Fees	$ 83,983	
Investment Management Support	$ 69,386	
GST Rebate on Investment Fees	$ (100,608)	
Total Investment Management Expenditures	$ 1,497,575	6.4%
Total	**$ 23,449,190**	**100%**

Administrative Advisory Committee

The Administrative Advisory Committee advises the Provincial Treasurer on administrative pension issues and provides a forum for the purposes of reviewing issues which may arise in the administering of the plan. This forum permits open consultation on matters relating to the CSSA.

The six-member committee is made up of representatives from the following:

1 – Secretary to Treasury Board (Chairperson);
2 – Union of Public Sector Employees;
1 – Comptroller's Office;
1 – Department/division responsible for Fund Administration;
1 – Health and Social Services ministry.

Master Trust Investment Advisory Committee

The Master Trust Investment Advisory Committee provides advice to the Provincial Treasurer in order to:

- protect the principal assets of the Master Trust;
- monitor costs;
- make recommendations on investment fund asset mix;
- review performance standards of the investment fund and their respective fund managers; and
- ensure compliance with both federal and provincial requirements relating to ownership of foreign equities.

The committee is comprised of a chairperson (Deputy Provincial Treasurer), along with representatives from the following:

2 – Prince Edward Island Teachers' Federation;
1 – Retired Prince Edward Island Teachers' Federation;
5 – Provincial Government;
1 – Excluded Employee Group;
2 – Union of Public Sector Employees;
1 – Retired Union of Public Sector Employees;
1 – Member of the Legislative Assembly;
3 – Ex Officio outside designates.

Audit Requirement

In accordance with Section 13, of the *Audit Act*, the financial statements have been examined by the Office of the Auditor General whose report is included in this annual report.

Appendixes

AUDITOR GENERAL

CHARLOTTETOWN
PRINCE EDWARD ISLAND

AUDITOR'S REPORT

Honourable Mitchell Murphy
Provincial Treasurer
Province of Prince Edward Island

I have audited the statement of net assets available for benefits of the Civil Service Superannuation Fund as at March 31, 2003 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Provincial Treasurer. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2003 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

Colin Younker, CA
Auditor General

Charlottetown, Prince Edward Island
October 22, 2003

STATEMENT 1

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

AS AT MARCH 31, 2003

	2003	2002
ASSETS		
Cash	$ 387,359	$ 510,746
Receivables		
Contributions receivable - employees	472,806	502,019
Contributions receivable - employers	682,445	619,559
Other	52,830	27,652
	1,595,440	1,659,976
Investments (Notes 2b and 3)	373,090,020	435,294,296
Total assets	$374,645,460	$436,954,272
LIABILITIES		
Accounts payable	$ 1,061,370	$ 860,923
NET ASSETS AVAILABLE FOR BENEFITS	$373,584,090	$436,093,349

(The accompanying notes are an integral part of these financial statements.)

STATEMENT 2

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED MARCH 31, 2003

	2003	2002
INCREASE IN ASSETS		
Investment income		
Interest	$ 8,349,773	$ 9,936,129
Dividends	5,862,490	5,214,006
	14,212,263	19,150,135
Market value increase (decrease)	(81,299,279)	14,930,368
Contributions (Note 6)		
Employees' contributions	8,679,152	8,596,212
Employers' contributions	8,679,152	8,596,212
Transfers from other plans	4,080,506	10,144,066
Refund repayments	110,622	82,625
Purchased service	580,910	529,777
Government contribution toward unfunded liability (Note 6)	5,926,605	5,926,605
	28,026,947	33,875,397
Total increase (decrease) in assets	(39,060,069)	63,955,900
DECREASE IN ASSETS		
Administrative expenses	1,792,292	1,324,387
Benefits paid	20,298,234	17,237,163
Refunds	386,039	453,217
Transfers	973,625	492,650
Total decrease in assets	23,449,190	19,507,397
INCREASE (DECREASE) IN NET ASSETS	(62,509,259)	44,448,503
NET ASSETS AVAILABLE FOR BENEFITS AT BEGINNING OF YEAR	436,093,349	391,644,846
NET ASSETS AVAILABLE FOR BENEFITS AT END OF YEAR	$373,584,090	$436,093,349

(The accompanying notes are an integral part of these financial statements.)

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2003

1. Description of Plan

The following description of the Civil Service Superannuation Plan is a summary only. For more complete information, reference should be made to the Civil Service Superannuation Act.

a) General
The Plan is a contributory defined benefit plan covering government employees and employees of certain boards, commissions, crown corporations and agencies as defined in the Civil Service Superannuation Act. In addition, the Plan covers employees receiving disability payments under the Employees Long Term Disability Plan.

b) Contributions
Under the Plan, employees and the employer make equal contributions amounting to 6.95% on that part of the salary on which Canada Pension Plan contributions are made and 8.75% on salary when Canada Pension Plan contributions are not required.

c) Retirement Benefits
A member who has attained age 60 and has completed at least 5 years of service or has attained age 55 and has completed 30 years of service is entitled to an immediate pension which is payable in equal monthly installments.

The annual amount of the pension is equal to 2% of the average salary of the member in the three year period of pensionable service during which such average salary is highest, multiplied by the number of years of pensionable service to a maximum of 35 years. When the member reaches the age of 65 (or if he or she is 65 or over at retirement) the amount of pension described above is reduced by 0.7% of the average salary up to the average Maximum Pensionable Earnings under the Canada Pension Plan during the three year period over which the average salary has been computed, multiplied by the number of years of the member's pensionable service after July 1, 1966 or July 1, 1972, depending on the election of the member and payment of the required contributions to be eligible for the smaller offset.

1 Description of Plan continued...

Reduced benefits are available at age 55 with 5 years pensionable service. The pension for a member who retires prior to age 60 (and who is not entitled to an unreduced pension) is calculated as described in the previous paragraph but then is reduced by 0.25% for each month by which the early retirement date precedes the member's earliest unreduced retirement age. The lessor of the number of months between the date of actual retirement and the date the member would attain the age 60 or the number of months between the date of actual retirement and the date the member would have at least thirty years of service.

The above formula determines the amount of a member's initial pension at retirement. In subsequent years the amount of a member's pension is increased in line with increases in the Consumer Price Index, but the increase in any one year is limited to no more than 6%.

d) Death Benefits

On the death of a member prior to completing 5 years of pensionable service, or after completing 5 years of service but leaving no surviving spouse or dependant children, the members contributions accumulated with interest will be refunded. If a member dies prior to retirement but after completing 5 years of service, the member's spouse is entitled to an immediate lifetime pension equal to 60% of the accrued, unreduced pension of the member at the time of death. In addition to the spousal pension, an allowance equal to one-sixth of the pension paid to the surviving spouse is payable in respect of each dependent child, up to a maximum of 4 children, until the child attains age 18, or until 21 if the child is attending school full-time.

e) Termination and Portability Benefits

In the event of termination of employment for reasons other than retirement or death, a Member may elect to receive either:

- a refund of the member's own contributions with interest, or
- if the member has completed at least five years of service, a deferred annuity commencing when the member attains the age of 60.

Where there are portability arrangements between the plan and other plans, members may be able to carry certain pension rights to those other plans, or transfer contributions and service from those other plans to increase pension benefits under the plan.

1. Description of Plan continued...

f) Marriage Breakdowns
Upon application, the pension benefits to which a person is entitled may be divided between the person and the spouse or former spouse.

g) Income Tax
The Plan is a Registered Pension Plan as defined under the Income Tax Act and is not subject to income tax.

2. Summary of Significant Accounting Policies

a) Basis of Presentation
These financial statements are prepared on the going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the Province and Plan members. They are prepared to assist Plan members and others in reviewing the activities of the Plan for the fiscal period but do not portray the funding requirements of the Plan or the benefit security of individual Plan members.

b) Investments are stated at market value, with the exception of Real Estate Investments which are valued at cost, as reported by the custodian of the Province of Prince Edward Island Master Trust as of March 31, 2003.

3. Investments

Investments as of March 31, 2003 consist of the following:

Investment in Province of Prince Edward Island Master Trust	$373,046,018
Cash held for investment	4,002
	$373,050,020

In April 1994, the investments of the Civil Service Superannuation Fund, MLA Pension Fund, and the Teachers' Superannuation Fund were consolidated into the Province of Prince Edward Island Master Trust. The Pension Plan for the Members of the Legislative Assembly became a participant in the Master Trust in February 1995. Units are held by each of these funds in the Master Trust. As of March 31, 2003 there were 695,639,083 units held in the Province of Prince Edward Island Master Trust, of which Civil Service Superannuation Fund held the following:

3. Investments continued...

Units held	414,154,507
Market value per unit	$900.74
Total market value held	$373,046,018

Investments of the Province of Prince Edward Island Master Trust are as follows:

Canadian T-Bills	$ 9,905,001
Other liquid assets	291,748
Bonds, debentures and notes	220,011,931
Canadian equity securities	243,031,346
Foreign equity securities	143,587,092
Accrued income receivable	4,207,450
Real estate	5,556,200
Total	$626,590,768

The investments of $626,590,768 include amounts which the four of the five Master Trust Fund managers have invested in their own pooled funds. The March 31, 2003 market values of these investments are as follows:

Sceptre Investment Counsel Limited	$ 74,203,207
Beutel Goodman & Company Ltd.	15,860,993
Northwater Capital Management Inc.	67,079,833
Templeton Management Limited	69,383,885
Total	$226,527,918

4. Obligations for Pension Benefits for Accounting Purposes

The present value of accrued pension benefits was determined using the projected benefit method prorated on service and best estimate assumptions. The most recent actuarial valuation for accounting purposes prepared by Morneau Sobeco disclosed an unfunded liability as at April 1, 2002 of $6,124,000. The unfunded liability of $6,124,000 does not include an allowance for the present value of the future contributions shown in Note 6. The present value of remaining special contributions required by the Civil Service Superannuation Act as at April 1, 2002 is $16,510,000 using a discount rate of 7.9% per annum. If this present value had been considered for the actuarial valuation balance sheet, there would be a surplus of $9,893,000.

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

NOTES TO FINANCIAL STATEMENTS (continued)

MARCH 31, 2003

4. Obligations for Pension Benefits for Accounting Purposes continued...

The actuarial present value of benefits as of March 31, 2003, the principal components of changes in actuarial present values during the year and the estimated unfunded liability, were as follows:

	2003
Actuarial present value of accrued benefits at beginning of year	$442,217,000
Interest accrued on benefits	34,653,000
Benefits accrued	13,149,000
Benefits paid	(20,298,000)
Actuarial present value of accrued at end of year	469,721,000
Actual net assets at March 31, 2003	373,584,000
Unfunded liability as at March 31, 2003	$ 96,137,000

The estimated unfunded liability of the fund of $96,137,000 does not include an allowance for the present value of the remaining special contributions . If the present value of the remaining special contributions had been considered, as of March 31, 2003, the fund would have an estimated unfunded liability of $84,718,000.

The economic assumptions used in determining the actuarial value of accrued pension for accounting purposes were developed by reference to expected long-term market conditions. Significant actuarial assumptions used in the valuation were:

Asset rate of return	7.9% per annum
Basic salary escalation rate (excluding promotional increases)	3.0% per annum
Pension cost of living increases	2.4% per annum

The Consolidated (Summary) Financial Statements of the Province record the obligation using the accounting method.

5. Funding Policy

In accordance with the Civil Service Superannuation Act, employees are required to contribute as described in Note 1(b). The employer matches employee contributions to the Fund. Under Section 5 of the Civil Service Superannuation Act, payments out of the Fund are guaranteed by the Province of Prince Edward Island. The most recent actuarial valuation for funding purposes was prepared by Morneau Sobeco as of April 1, 2002. This valuation disclosed an unfunded liability as at April 1, 2002 of $52,465,000. As of March 31, 2003 the estimated unfunded liability for funding purposes is $147,162,000.

5. Funding Policy continued...

For the purpose of reducing the unfunded liability of the Fund, the Civil Service Superannuation Act requires the Lieutenant Governor-in-Council to pay $63.35 million into the Fund in accordance with the following schedule:

April 1, 1995	$11.60 million
April 1, 1996	5.75 million
March 31, 1998*	5.75 million
April 1, 1998	5.75 million
April 1, 1999	5.75 million
April 1, 2000	5.75 million
April 1, 2001	5.75 million
April 1, 2002	5.75 million
April 1, 2003	5.75 million
April 1, 2004	5.75 million

*An amount equal to the revenue that would otherwise have been earned for the period April 1, 1997 to March 31, 1998, on the contribution for the 1997-98 fiscal year that is deferred to March 31, 1998, shall be paid in seven equal installments commencing on April 1, 1998.

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